

# **The City of Sterling Heights Housing Commission**

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**Financial Report  
September 30, 2007**

# **The City of Sterling Heights Housing Commission**

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## Independent Auditor's Report

To the Members of The City of Sterling  
Heights Housing Commission  
City of Sterling Heights, Michigan

We have audited the accompanying basic financial statements of The City of Sterling Heights Housing Commission as of September 30, 2007 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of The City of Sterling Heights Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of The City of Sterling Heights Housing Commission as of September 30, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of The City of Sterling Heights Housing Commission taken as a whole. The accompanying financial data schedules included in the other supplemental information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Members of The City of Sterling  
Heights Housing Commission  
City of Sterling Heights, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2008 on our consideration of The City of Sterling Heights Housing Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

June 11, 2008

# **The City of Sterling Heights Housing Commission**

## **Management's Discussion and Analysis**

The City of Sterling Heights Housing Commission's (SHHC) management's discussion and analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SHHC's financial activities for the year, (c) identify changes in SHHC's financial position, and (d) identify individual program issues or concerns.

Our discussion and analysis of SHHC's financial performance provides an overview of SHHC's financial activities for the fiscal year ended September 30, 2007. Please read in conjunction with SHHC's financial statements.

### **Mission**

SHHC was created on November 16, 1971 and, through its programs and partnerships, is committed to building better neighborhoods by providing housing opportunities for qualified individuals and families through creative and professional services in partnership with the greater community.

### **Financial Highlights**

- SHHC's total assets exceeded its liabilities by \$4,489,232 at September 30, 2007. This is a decrease of \$155,708 from the previous year as a result of operations.
- Operating revenues decreased by \$68,961 (6.5 percent) and were \$989,426 and \$1,058,387 for fiscal years 2007 and 2006, respectively.
- Operating expenses increased by \$46,507 (4.2 percent) and were \$1,153,871 and \$1,107,364 (including depreciation) for fiscal years 2007 and 2006, respectively.

### **The Commission's Funds**

SHHC's financial statements utilize the Enterprise Funds method, on the full accrual basis of accounting. The Enterprise Funds method is similar to accounting used in the private sector. Many of the programs maintained by SHHC are required by the Department of Housing and Urban Development (HUD). Others are segregated to enhance accountability and control. Major programs are as follows:

**Low-income Public Housing Program** - Under this program, SHHC rents units at Schoenherr Towers, which is the apartment building it owns, to low-income households. This program is operated under the annual contributions contract (ACC) with HUD, and HUD provides operating subsidies to enable SHHC to provide the housing at a cost that is based upon 30 percent of household income. SHHC currently owns and operates 152 units in this program.

**Section 8 Program** - Within the Section 8 Program, SHHC administers contracts with independent landlords that own and lease units within our community. SHHC subsidizes the family's rent through a housing assistance payment (HAP) made to the landlord. These programs are operated under annual contributions contracts (ACC) with HUD, which enables SHHC to structure a lease that sets the participants' housing costs at 30 percent of household income. SHHC currently administers 35 housing choice vouchers.

# The City of Sterling Heights Housing Commission

## Management's Discussion and Analysis (Continued)

### The Commission's Financial Statements

SHHC's basic financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire commission. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), formerly called capital contributions; restricted net assets; and unrestricted net assets.

Our commission-wide financial statements also include a statement of revenue, expenses, and changes in net assets (similar to an income statement). This statement includes operating revenues such as rental income, operating expenses, such as administrative, utilities, and maintenance, and nonoperating revenues and expenses such as capital grant revenue and investment income. The focus of this statement is the change in net assets, which is similar to net income or loss. Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, capital and related financing activities, and investing activities.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Fiscal Year		
	2007	2006	Change
<b>Assets</b>			
Current and other assets	\$ 962,129	\$ 1,049,752	\$ (87,623)
Noncurrent assets	<u>3,659,980</u>	<u>3,801,994</u>	<u>(142,014)</u>
Total assets	4,622,109	4,851,746	(229,637)
<b>Liabilities - Current and other liabilities</b>	<u>132,877</u>	<u>206,806</u>	<u>(73,929)</u>
<b>Net Assets</b>			
Invested in capital assets	3,659,980	3,801,994	(142,014)
Unrestricted	<u>829,252</u>	<u>842,946</u>	<u>(13,694)</u>
Total net assets	<u><b>\$ 4,489,232</b></u>	<u><b>\$ 4,644,940</b></u>	<u><b>\$ (155,708)</b></u>

# The City of Sterling Heights Housing Commission

## Management's Discussion and Analysis (Continued)

### Major Factors Affecting the Statement of Net Assets

Net assets decreased \$155,708. SHHC's plan is to cover only cash operating expenses on a year-to-year basis and not all expenses recognized for accounting purposes. Accordingly, the unrestricted portion of net assets decreased by \$13,694.

Please refer to the full financial statements for more detailed information on these accounts.

The following table shows the changes in net assets during the current year:

	Fiscal Year		
	2007	2006	Change
<b>Revenue</b>			
Tenant rent	\$ 381,160	\$ 409,947	\$ (28,787)
Federal sources	545,868	630,452	(84,584)
Miscellaneous	62,398	17,988	44,410
Interest revenue (nonoperating)	8,737	2,175	6,562
Total revenue	998,163	1,060,562	(62,399)
<b>Expenses</b>			
Low-income public housing	677,120	569,333	107,787
Section 8 Programs	172,664	230,329	(57,665)
Non-HUD/Other business activities	304,087	307,702	(3,615)
Loss on sale of assets (nonoperating)	-	49,914	(49,914)
Total expenses	1,153,871	1,157,278	(3,407)
<b>Change in Net Assets</b>	<b>\$ (155,708)</b>	<b>\$ (96,716)</b>	<b>\$ (58,992)</b>

### Major Factors Affecting the Statement of Revenue, Expenses, and Changes in Net Assets

Total revenues decreased by \$62,399. This net decrease is mostly a result of HUD subsidies decreasing by \$84,584. The HUD subsidies are determined based on the needs of the individual tenants receiving assistance and capital improvement needs of buildings.

Total expenses decreased \$3,407. Most expenses rose as a result of normal inflationary increases in the Low Rent Public Housing Program, whereas a decrease in housing assistance payments caused the Section 8 Housing Choice Vouchers Program to decrease.

Please refer to the full financial statements for more detailed information on these accounts.

# The City of Sterling Heights Housing Commission

## Management's Discussion and Analysis (Continued)

The following table shows net assets invested in capital assets during the current year:

	Fiscal Year		Change
	2007	2006	
Land	\$ 300,000	\$ 300,000	\$ -
Buildings	7,555,126	7,461,539	93,587
Equipment	864,492	834,977	29,515
Construction in progress	-	1,443	(1,443)
Accumulated depreciation	(5,059,638)	(4,795,965)	(263,673)
Total net assets invested in capital assets	<u>\$ 3,659,980</u>	<u>\$ 3,801,994</u>	<u>\$ (142,014)</u>

During fiscal year 2007, the change in capital assets amounted to a decrease of \$142,014. The above table represents the changes in the asset accounts by category as follows:

- Buildings and equipment increased by \$93,587 and \$29,515, respectively, as the result of various building improvements and upgrading certain outdated equipment.
- The accumulated depreciation increased by \$263,673. The increase is current year depreciation expense less accumulated depreciation on disposal of assets.

### Contacting SHHC's Management

This financial report is designed to provide a general overview of SHHC's finances and to show SHHC's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact SHHC's office.



# The City of Sterling Heights Housing Commission

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## Statement of Net Assets September 30, 2007

### Assets

#### Current assets:

Cash and cash equivalents (Note 2)	\$ 540,017
Short-term investments (Note 2)	400,000
Accounts receivable	212
Prepays	<u>21,900</u>

Total current assets 962,129

Long-term assets - Capital assets - Net (Note 3) 3,659,980

Total assets 4,622,109

### Liabilities

Accounts payable	25,201
Accrued and other liabilities	<u>107,676</u>

Total liabilities 132,877

### Net Assets

Invested in capital assets	3,659,980
Unrestricted	<u>829,252</u>

Total net assets \$ 4,489,232

# **The City of Sterling Heights Housing Commission**

## **Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2007**

### **Operating Revenue**

Tenant rent	\$ 381,160
Federal sources	545,868
Miscellaneous	<u>62,398</u>

Total operating revenue 989,426

### **Operating Expenses**

Salaries and wages:	
Office	80,301
Maintenance	50,828
Security	7,672
Management fees	63,720
Utilities	134,763
Repairs and maintenance	195,922
Professional fees	34,036
Taxes	42,402
Insurance	67,476
Section 8 programs	172,664
Depreciation	263,673
Miscellaneous	<u>40,414</u>

Total operating expenses 1,153,871

**Operating Loss** (164,445)

**Nonoperating Revenue - Interest** 8,737

**Change in Net Assets** (155,708)

**Net Assets - Beginning of year** 4,644,940

**Net Assets - End of year** \$ 4,489,232

# **The City of Sterling Heights Housing Commission**

## **Statement of Cash Flows Year Ended September 30, 2007**

### **Cash Flows from Operating Activities**

Receipts from HUD operating subsidies and grants	\$ 571,827
Receipts from tenants	381,529
Other receipts	62,398
Payments for housing assistance	(197,417)
Change in prepaid expenses	(21,900)
Payments for administrative expenses	(144,021)
Payment for other operating expenses	(245,960)
Payments for resident and other services	(330,685)
Other payments	<u>(40,414)</u>

Net cash provided by operating activities 35,357

### **Cash Flows from Capital and Related Financing Activities -**

Acquisition of capital assets	(121,659)
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### **Cash Flows from Investing Activities**

Interest received on investments	8,737
Purchase of investment securities	<u>(99,706)</u>

Net cash used in investing activities (90,969)

**Net Decrease in Cash and Cash Equivalents** (177,271)

**Cash and Cash Equivalents - October 1, 2006** 717,288

**Cash and Cash Equivalents - September 30, 2007** \$ 540,017

# **The City of Sterling Heights Housing Commission**

## **Statement of Cash Flows (Continued)** **Year Ended September 30, 2007**

### **Reconciliation of Operating Loss to Net Cash from Operating Activities**

Operating loss	\$ (164,445)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	263,673
Changes in assets and liabilities:	
Due from other governmental units	31,589
Accounts receivable	369
Prepaid expenses	(21,900)
Accounts payable	(54,658)
Due to other governmental units	(30,383)
Accrued and other liabilities	<u>11,112</u>
Net cash provided by operating activities	<u><b>\$ 35,357</b></u>

**Noncash Investing, Capital, and Financing Activities** - There were no noncash investing, capital, and financing activities during the year ended September 30, 2007.

# The City of Sterling Heights Housing Commission

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**Notes to Financial Statements  
September 30, 2007**

## **Note I - Significant Accounting Policies**

The financial statements of The City of Sterling Heights Housing Commission (the "Housing Commission") pertain to the financial activities of the Housing Commission as a separate entity.

The Housing Commission was created to account for the operations of Schoenherr Towers, the City of Sterling Heights' (the "City") senior citizen housing project for low-income citizens, and other housing-related city matters.

**Reporting Entity** - The Housing Commission is governed by a board of commissioners appointed by the Sterling Heights City Council. There are no component units to be included in these financial statements as defined by accounting principles generally accepted in the United States of America.

**Basis of Accounting** - The financial statements of the Housing Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Housing Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Housing Commission's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Commission uses a single Enterprise Fund to maintain its financial records on an accrual basis.

The Housing Commission considers all revenue and expenses to be operating, as required by HUD.

**Cash Equivalents** - For the purpose of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

**Investments** - The Housing Commission's investments are recorded at fair value, based on quoted market prices.

# **The City of Sterling Heights Housing Commission**

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**Notes to Financial Statements  
September 30, 2007**

## **Note 1 - Significant Accounting Policies (Continued)**

**Capital Assets** - Capital assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives ranging from 7 to 40 years. Capital assets are defined by the Housing Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year.

## **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Housing Commission has authorized multiple banks for the deposit of its funds. The Housing Commission follows Public Act 196 of 1997, which has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above as its investment policy. The Housing Commission's deposits and investment policies are in accordance with statutory authority.

The Housing Commission's cash and investments are subject to custodial credit risk, which is examined in more detail below:

### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Housing Commission's deposits may not be returned to it. The Housing Commission does not have a deposit policy for custodial credit risk. At year end, the Housing Commission had \$474,087 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Housing Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Housing Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# The City of Sterling Heights Housing Commission

## Notes to Financial Statements September 30, 2007

### Note 3 - Capital Assets

Capital assets as of September 30, 2007 include the following:

	Balance October 1, 2006	Additions	Disposals and Adjustments	Balance September 30, 2007
Land	\$ 300,000	\$ -	\$ -	\$ 300,000
Buildings and improvements	7,461,539	93,587	-	7,555,126
Furniture and fixtures	834,977	29,515	-	864,492
Construction in progress	<u>1,443</u>	<u>-</u>	<u>1,443</u>	<u>-</u>
Total	8,597,959	123,102	1,443	8,719,618
Less accumulated depreciation	<u>4,795,965</u>	<u>263,673</u>	<u>-</u>	<u>5,059,638</u>
Net carrying amount	<u>\$ 3,801,994</u>	<u>\$ (140,571)</u>	<u>\$ 1,443</u>	<u>\$ 3,659,980</u>

Depreciation expense was \$263,673 for the year ended September 30, 2007.

### Note 4 - Risk Management

The Housing Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Housing Commission has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

## **Other Supplemental Information**

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# The City of Sterling Heights Housing Commission

## Other Supplemental Information Financial Data Schedule - Balance Sheet September 30, 2007

	Housing Choice Vouchers	Low Rent Public Housing	Capital Funds Program Grant
<b>Assets</b>			
<b>Current Assets</b>			
Cash - Unrestricted	\$ 52,552	\$ 487,465	\$ -
Accounts receivable - HUD other projects	-	212	-
Investments - Unrestricted	-	400,000	-
Prepaid expenses and other assets	-	21,900	-
Total current assets	52,552	909,577	-
<b>Noncurrent Assets</b>			
Land	-	300,000	-
Buildings	-	7,310,055	245,071
Furniture, equipment, and machinery - Dwellings	-	864,492	-
Accumulated depreciation	-	(5,038,970)	(20,668)
Total noncurrent assets	-	3,435,577	224,403
Total assets	<u>\$ 52,552</u>	<u>\$ 4,345,154</u>	<u>\$ 224,403</u>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Accounts payable less than 90 days	\$ -	\$ 25,201	\$ -
Accrued liabilities - Other	-	107,676	-
Total current liabilities	-	132,877	-
<b>Net Assets</b>			
Invested in capital assets	-	3,435,577	224,403
Unrestricted	52,552	776,700	-
Total net assets	52,552	4,212,277	224,403
Total liabilities and net assets	<u>\$ 52,552</u>	<u>\$ 4,345,154</u>	<u>\$ 224,403</u>

# The City of Sterling Heights Housing Commission

## Other Supplemental Information Financial Data Schedule

### Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended September 30, 2007

	Housing Choice Vouchers	Low Rent Public Housing	Capital Funds Program Grant
<b>Revenue</b>			
Net tenant rental revenue	\$ -	\$ 381,160	\$ -
HUD PHA grants	239,478	227,169	72,023
Other federal grants	7,198	-	-
Misc. income	20,202	42,196	-
Investment income - Unrestricted	38	8,699	-
Total revenue	266,916	659,224	72,023
<b>Expenses</b>			
Administrative salaries	-	80,301	-
Auditing fees	-	15,896	-
Outside management fees	17,240	46,480	-
Other operating - Administrative	-	18,140	-
Utilities:			
Water	-	19,882	-
Electricity	-	41,561	-
Gas	-	66,395	-
Other utilities expense	-	6,925	-
Ordinary maintenance and operation - Labor	-	50,828	-
Ordinary maintenance and operation - Materials and other	-	194,422	1,500
Protective services - Other	-	7,672	-
Insurance premiums	-	67,476	-
Other general expenses	18,830	35,356	-
Payments in lieu of taxes	-	28,630	-
Total expenses	36,070	679,964	1,500
<b>Excess of Revenue Over (Under) Expenses</b>	230,846	(20,740)	70,523
<b>Other Expenses</b>			
Depreciation expense	-	253,673	10,000
Housing assistance payments	172,664	-	-
Total other expenses	172,664	253,673	10,000
<b>Change in Net Assets</b>	58,182	(274,413)	60,523
<b>Net Assets (Deficit) - Beginning of year</b>	(5,630)	4,486,690	163,880
<b>Net Assets - End of year</b>	<u><u>\$ 52,552</u></u>	<u><u>\$ 4,212,277</u></u>	<u><u>\$ 224,403</u></u>

# **City of Sterling Heights Housing Commission**

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**Federal Awards  
Supplemental Information  
September 30, 2007**

# City of Sterling Heights Housing Commission

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## Independent Auditor's Report

To the Board of Commissioners  
City of Sterling Heights Housing Commission

We have audited the financial statements that collectively comprise City of Sterling Heights Housing Commission's basic financial statements for the year ended September 30, 2007 and have issued our report thereon dated June 11, 2008. Those basic financial statements are the responsibility of the management of City of Sterling Heights Housing Commission. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sterling Heights Housing Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

June 11, 2008

Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*

To the Board of Commissioners  
City of Sterling Heights Housing Commission

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of City of Sterling Heights Housing Commission as of and for the year ended September 30, 2007, which collectively comprise City of Sterling Heights Housing Commission's basic financial statements, and have issued our report thereon dated June 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Sterling Heights Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sterling Heights Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Sterling Heights Housing Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

To the Board of Commissioners  
City of Sterling Heights Housing Commission

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiencies described in the schedule of findings and questioned costs as items 2007-2 and 2007-3 constitute material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Sterling Heights Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of commissioners, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

June 11, 2008

Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133

To the Board of Commissioners  
City of Sterling Heights Housing Commission

### Compliance

We have audited the compliance of City of Sterling Heights Housing Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2007. The major federal programs of City of Sterling Heights Housing Commission are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Sterling Heights Housing Commission's management. Our responsibility is to express an opinion on City of Sterling Heights Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sterling Heights Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Sterling Heights Housing Commission's compliance with those requirements.

In our opinion, City of Sterling Heights Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.



To the Board of Commissioners  
City of Sterling Heights Housing Commission

## **Internal Control Over Compliance**

The management of City of Sterling Heights Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Sterling Heights Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of commissioners, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moreau, PLLC*

June 11, 2008

# City of Sterling Heights Housing Commission

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
U.S. Department of Housing and Urban Development: Performance Funding Operating Subsidy - Program Year - 2007 - MI-157-001-07D	14.850	N/A	\$ 227,169
Housing Assistance Payments Program - MI-157VO0006	14.871	N/A	239,478
Public Housing Capital Fund MI-28PI57501-05	14.872	N/A	1,500
Public Housing Capital Fund MI-28PI57501-06	14.872	N/A	70,523
Passed through other local communities - Housing Assistance Payments Program - MI-157VO0006	14.871	N/A	<u>7,198</u>
Total federal awards			<u><b>\$ 545,868</b></u>

# **City of Sterling Heights Housing Commission**

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## **Note to Schedule of Expenditures of Federal Awards Year Ended September 30, 2007**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Sterling Heights Housing Commission and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# City of Sterling Heights Housing Commission

## Schedule of Findings and Questioned Costs Year Ended September 30, 2007

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.871	Housing Assistance Payments Program
14.872	Public Housing Capital Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

# City of Sterling Heights Housing Commission

## Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2007

### Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-1	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - City of Sterling Heights Housing Commission (the "Housing Commission") is required to prepare its basic financial statements in accordance with generally accepted accounting principles.</p> <p><b>Condition</b> - Interest earned on certificates of deposits was not identified and/or recorded by the Housing Commission prior to the commencement of the year-end audit.</p> <p><b>Context</b> - The amount of earned interest not recorded at September 30, 2007 was approximately \$40,000.</p> <p><b>Cause and Effect</b> - The Housing Commission does not consider interest earned on certificates of deposits until the underlying investment is redeemed.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Housing Commission is aware of the importance of properly recording interest revenue and will adjust the closing procedures to ensure that all revenue is appropriately recorded.</p>
2007-2	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Reconciliation of key general ledger accounts to subsidiary ledgers, reports, and third-party statements is an integral component of the Housing Commission's financial reporting and internal control structure. Reconciliations should result in the correction of the general ledger, if necessary.</p> <p><b>Condition</b> - The Housing Commission had recorded 15 months worth of activity within the housing choice voucher program for the year ended September 30, 2007.</p>

# City of Sterling Heights Housing Commission

## Schedule of Findings and Questioned Costs Year Ended September 30, 2007

### Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-2 (Continued)	<p><b>Context</b> - This resulted in an approximately 25 percent overstatement of all revenues and expenses.</p> <p><b>Cause and Effect</b> - During the current year, the Housing Commission changed third-party administrators. The new administrator was not aware that the information obtained for the housing choice voucher program was based on a June 30, 2007 year end.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Housing Commission is aware of the importance of a reconciliation process and will adjust the general ledger appropriately in the future.</p>

Reference Number	Findings
2007-3	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Reconciliation of fixed asset records to the general ledger is an integral component of the Housing Commission's financial reporting and internal control structure. Reconciliations should result in the correction of the general ledger, if necessary.</p> <p><b>Condition</b> - The Housing Commission failed to reconcile fixed asset records to the general ledger. In addition, depreciation expense was not calculated or recorded in the general ledger for buildings and improvements.</p> <p><b>Context</b> - Depreciation expense on the buildings and related improvements was approximately \$124,000 in the current year.</p> <p><b>Cause and Effect</b> - The Housing Commission changed third-party administrators in the current year. During this transition, the fixed asset records were not reconciled to the general ledger.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Housing Commission is aware of the importance of a reconciliation process and will adjust the general ledger appropriately in the future.</p>

# **City of Sterling Heights Housing Commission**

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## **Schedule of Findings and Questioned Costs Year Ended September 30, 2007**

### **Section III - Federal Program Audit Findings**

None